Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 453 (Prince George's County Delegation)
Ways and Means

Prince George's County - Sales Tax for School Construction and Operating Costs PG 413-03

This bill authorizes the County Council of Prince George's County to impose a 1% local sales tax in addition to the State's 5% sales tax. Net revenues collected under these provisions may be used only for the purpose of providing operating funding for the Prince George's County Board of Education and capital funding for the construction, renovation, and upgrading of public schools in Prince George's County, including funding of debt service on bonds. To take effect, the sales tax must first be submitted to a referendum of Prince George's County voters at the November 2004 election.

The bill takes effect July 1, 2003 for the purposes of holding the referendum; if the tax is approved, it would take effect January 1, 2005.

Fiscal Summary

State Effect: If the referendum is approved, and if the local sales tax encourages residents of Prince George' County to make purchases outside the State, sales tax revenues could potentially decrease by approximately $1.7 million per year in FY 2005 and $3.7 million in FY 2006 and thereafter.

Local Effect: Assuming approval of the mandated referendum, Prince George's County revenues could increase by an estimated $33.7 million in FY 2005 based on the January 1, 2005 effective date, increasing to $70.8 million in FY 2006. Future year growth reflects estimated growth in sales tax revenues. Expenditures could increase by approximately $150,000 annually to administer the tax.

Small Business Effect: Meaningful impact on small businesses in Prince George's County.

Analysis

Bill Summary: Vendors must file returns with the county on the twenty-first day of each month, and shall remit the taxes collected with the return. Vendors are allowed a deduction of 1.5% of the tax collected.

Current Law: State law prohibits local governments from imposing any general retail sales or use taxes, with certain exceptions. These exceptions include taxes that existed before January 1, 1971; sales or use taxes on fuels, utilities, space rentals, and certain controlled dangerous substances; and certain sales or use taxes on food and beverages. The last permits the Town of Ocean City to levy a 1% sales tax on food and beverages.

Background: Prince George's County Board of Education advises that it has 31 major capital projects ongoing in fiscal 2003. The board advises that fiscal 2003 capital spending will be $84 million, of which $18 million is estimated to be State funds and $66 million is estimated to be county funds.

The State currently participates in the Streamlined Sales Tax Project, a multistate effort to harmonize state sales tax structures and thereby overcome the administrative and legal hurdles of collecting sales taxes on remote transactions, such as sales from catalogs and the Internet. One significant obstacle to the harmonization effort has been local sales taxes. As noted above, Maryland has relatively few local sales taxes, while some other states have extensive local sales tax structures.

State Revenues: To the extent that Prince George's County residents make out-of-state purchases to avoid the local sales tax, then State sales tax revenue will also decline. If 1% of county sales are diverted out-of-state, then State sales tax revenues could decline by $1.7 million in fiscal 2005 (reflecting the January 1, 2005 effective date) and $3.7 million annually beginning in fiscal 2006.

Local Revenues: Prince George's County revenues could increase $33.7 million in fiscal 2005, based on the following estimates, adjustments, and assumptions:

- estimation of reported State sales tax collections attributable to Prince George's County of $315,606,864 in fiscal 2002;
- adjustment for the State sales tax vendor credit;
- projection of sales tax growth from 2002 to 2005 based on statewide estimates by the Bureau of Revenue Estimates (BRE);

- assumption that 2% of sales in the county will be diverted to other Maryland counties and that an additional 1% of county sales will be diverted out of the State altogether due to the higher tax rate;
- adjustment for the new 1% county rate; and
- adjustment for the January 1, 2005 effective date.

Future year revenues are projected as indicated in the table below and based on the following additional estimates, adjustments, and assumptions:

- annualization of fiscal impact beginning in fiscal 2006; and
- sales tax revenue growth based on BRE forecasts for fiscal 2006 and 2007 and a forecasted 3.5% growth rate for fiscal 2008.

Projected Increase in Prince George's County Revenues
Fiscal 2005 through 2008
($ in Millions)

FY 2005	$33.7
FY 2006	$70.8
FY 2007	$74.1
FY 2008	$76.7

Due to the method by which the Comptroller apportions sales tax revenues to the counties, the county's actual collections could differ significantly from the estimate above. Legislative Services advises, however, that there is no alternative, more accurate measure of retail sales taking place in the county. Also, to the extent that avoidance of the additional sales tax is greater than estimated, particularly for "big ticket" purchases, then realized revenues may be lower than estimated.

Local Expenditures: The costs associated with conducting the referendum could be handled with existing resources. Prince George's County advises that in order to administer the tax, county expenditures could increase by an estimated $150,000 for three additional fiscal positions (including salaries and fringe benefits).

Small Business Effect: For retail establishments in Prince George's County, there will be additional initial costs associated with reprogramming cash registers and ongoing administrative costs from remitting the tax collections. In most cases, these costs will be offset by the vendor commission. For retail establishments that lose sales to other jurisdictions because of the tax, the vendor commission may not offset the lost revenue.

Additional Information

Prior Introductions: SB 120 of 2001 received an unfavorable report from the Budget and Taxation Committee. SB 777 of 2002 was not reported from the Budget and Taxation Committee.

Cross File: None designated, although SB 38 is identical to this bill.

Information Source(s): Prince George's County, Comptroller's Office, Department of Legislative Services

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